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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 001696

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SUBJECT: PRESS PROVIDES RARE GLIMPSE INTO KUWAIT'S INTERNATIONAL INVESTMENTS

Classified By: CDA Alan Misenheimer for Reasons 1.4 (b) and (d)

¶1. (SBU) On November 20, the Arabic-language daily Al-Qabas published an unusual table listing the overseas investments of the Kuwait Investment Authority's Fund for Future Generations by geographic distribution and asset class (see table in para 4). To our knowledge, this is the first time that such information has appeared in the public domain.

¶2. (C) KIA Executive Director Ahmed Bastaki confirmed to A/DCM on November 25 that the article and figures published were accurate. He explained that while KIA normally shuns media coverage, KIA management was not displeased to see the information appear in the press. He said KIA has endeavored under current management to provide greater transparency but has been limited by Law 47 of 1982, which specifically prohibits the disclosure to the public of any information related to KIA's work and states the penalties for unauthorized disclosure of information to the public. Bastaki said that KIA wants to see the law "relaxed."

¶3. (C) Bastaki said KIA did not leak the information to the press. He assumed the leak came from parliament. He explained that the State Audit Bureau had requested information from KIA in response to KIA violations of its benchmarks for asset allocation. He noted in particular that KIA investments were more heavily weighted in the U.S. than the benchmarks stipulated. (Comment: Bastaki appeared to be trying to reassure us that KIA remains and will remain heavily invested in the U.S. market; see note below. End comment). He said KIA complied with the Audit Bureau's request for information by providing "pages of documents" outlining and explaining KIA's investment practices. While pleased that a snapshot appeared in the press, Bastaki stressed it was only a snapshot of the overall information provided, and he regretted that "more of our reasoning" was not included in the article as well.

¶4. (U) The following table appeared in Al-Qabas with some factual narrative but no commentary:

The asset class allocation of the Fund for Future Generations:

	Previous Benchmarks (Percentage)	New Benchmarks (Percentage)	Current Holdings (Percentage)
Cash	1-8	37	22.88
Bonds	15-20	15-22	14.78
Stocks	65-75	55-65	57.17
Alt. Invest	4-6	4-6	1.73
Real Estate	4-6	8-12	3.44

The geographic allocation of the Fund for Future Generations:

Previous Benchmarks	New Benchmarks	Current Holdings
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	(Percentage)	(Percentage)	(Percentage)
America	45-55	38-43	52.88
Europe	35-45	38-43	32.34
Asia & Japan	10-15	13-17	8.96
Emerging Markets	---	4-6	5.82

The distribution of "alternative investments" in the Fund for Future Generations:

Investment	Committed(Thousand USD)	Paid(Thousand USD)
Special Stocks	4,491,120	1,398,236
Real Estate	2,566,928	1,182,959
Provisional Funds	647,863	647,836
Total	7,705,884	3,229,031

Comment  
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15. (C) Bastaki's reaction to the publication of what has hitherto been close-hold information (although KIA has said in the past that in terms of the geographic distribution of its investments, the amount invested in each country/region roughly corresponded to that country's/region's share of world GDP) is significant. It lends credence to KIA's claim, voiced in recent meetings with us and supported by the then-Finance Minister's public disclosure in July that KIA's total funds under management were USD 213 billion, that KIA is committed to greater transparency.

16. (C) As for the information itself, we are struck by several things:

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-- that the ratio of stocks to bonds is so high, given KIA's reputation for being a very conservative investor. However, we can probably assume that most of these stocks are blue chip.

-- that KIA holds as much cash as it does. Since this is a Fund for Future Generations, there is presumably no need for this fund to be especially liquid. Letting upwards of \$40 billion of cash languish unproductively strikes us as a wasted opportunity.

-- the growth of the real estate portfolio is interesting. Given KIA's complaints about taxes on U.S. real estate investments, we may assume that most of these properties are not located in the U.S.

-- geographically, Bastaki's comments notwithstanding, the table shows that KIA now intends to funnel significantly less of its new investment into the U.S., slightly more into Europe and Asia (probably Japan/Korea) and significantly more into emerging markets (probably mostly China and, to a lesser degree, India and SE Asia). This seems to be in line with KIA's concerns about CFIUS and NOPEC as well as its focus on growth in China.

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